

Message Text

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C O N F I D E N T I A L STATE 300687

EXDIS, USEEC, USOECD

FOLLOWING REPEAT WARSAW 8956 ACTION SECSTATE DEC 12

QUOTE: C O N F I D E N T I A L WARSAW 8956

EXDIS

EO 11652XGDS

TAGS: ETRD, PL

SUBJ: MARKET ACCESS FOR POLISH EXPORTS: THE NEED FOR HIGH-LEVEL
ATTENTION

1. SUMMARY: I HAVE ALREADY EXPRESSED MY VIEW THAT WE SHOULD
INSIST THAT POLAND DEAL WITH ITS DEBT PROBLEMS ON A MULTILATERAL
BASIS AND PUT ITS OWN ECONOMIC HOUSE IN ORDER. AT THE
SAME TIME, WE SHOULD TRY TO RESPOND TO SOME OF POLAND'S CONCERNS
ABOUT ACCESS TO THE US AND OTHER WESTERN MARKETS. THE DECEMBER
15 PRC MEETING SHOULD CONSIDER THESE TWO PROBLEMS AS SIDES OF THE
SAME COIN.

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2. SPECIFICALLY, I THINK WE SHOULD:

--OFFER TO TAKE UP POLAND'S PROBLEMS OF MARKET ACCESS AT A HIGH
LEVEL WITH OTHER WE KERN GOVERNMENTS;

--EXPLAIN OUR POSITION ON SPECIALIZATION FOR EXPORT TO THE US
MARKET, IT, THAT POLISH FIRMS ARE FREE TO SPECIALIZE THIS WAY
IN COOPERATION WITH US FIRMS, PROVIDED THEY DO NOT EXPECT
SPECIAL TREATMENT UNDER LAW;

--POINT OUT THE CONTRIBUTION WHICH OUR DRAFT ECONOMIC/INDUSTRIAL
COOPERATION AGREEMENT COULD MAKE IN CREATING THE PROPER ATMOSPHERE
FOR COOPERATION AMONG OUR FIRMS;

--REPEAT OUR OFFER TO HELP FAMILIARIZE POLISH FIRMS WITH THE US MARKET THROUGH ORGANIZING MARKETING SEMINARS AND THROUGH THE ASSISTANCE OF THE DEPARTMENT OF COMMERCE, AND
--REPLY IN WRITING TO THE POLISH AIDE MEMOIRE OF NOVEMBER 30, CONCERNING ACCESS TO THE US MARKET.

3. THE FIRST OF THESE RECOMMENDATIONS -- THAT WE TAKE UP THE PROBLEM OF POLAND'S MARKET ACCESS WITH OTHER WESTERN GOVERNMENTS -- IS BOTH THE MOST IMPORTANT AND THE MOST COMPLICATED. I BELIEVE WE HAVE CLEAR TRADE-POLISH INTERESTS IN BEGINNING SUCH DISCUSSIONS. SPECIFICALLY, WE NEED TO ADDRESS THE GROWING TENDENCY TOWARD BILATERALISM IN EC-POLISH NEGOTIATIONS, ENCOURAGE POLAND TO HANDLE ITS ECONOMIC PROBLEMS ON A MULTILATERAL BASIS, AND FOCUS ATTENTION ON FUTURE ACCESS TO THE POLISH MARKET, A PROBLEM FOR WHICH WE HAVE NO HANDLE IN THE CURRENT TOKYO ROUND NEGOTIATIONS.

4. POLISH LEADERS WILL DEFINITELY RAISE QUESTIONS OF MARKET ACCESS DURING THE VISIT OF PRESIDENT CARTER, JUST AT THE PRESSED CHANCELLOR SCHDT FOR IMPROVEMENT ON THIS FRONT (WARSAW 8728).
END SUMMARY.

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5. I AM STRUCK BY THE FACT THAT, WHILE THE MARKET ACCESS AND PAYMENTS DIFFICULTIES OF THE LDC'S HAVE BEEN ADDRESSED DIRECTLY IN ONGOING MULTILATERAL DISCUSSIONS, THE SIMILAR PROBLEMS OF POLAND AND SOME OTHER EAST EUROPEAN COUNTRIES HAVE NOT EVEN BEEN DISCUSSED AT A HIGH LEVEL AMONG WESTERN GOVERNMENTS. THE ONLY PARTIAL EXAMPLE -- AND IT WAS ABORTIVE -- WAS THE US ATTEMPT IN JUNE, 1976, TO GET THE OECD TO FOCUS ON THE NEW "THREAT" OF CEMA INDEBTEDNESS. WHAT WE NEED IS A MEETING OF WESTERN MINDS ON HOW POLAND AND OTHER CEMA COUNTRIES CAN PAY THEIR DEBTS, IE, EXPORT IN A WAY CONSISTENT WITH A STABLE ECONOMIC ENVIRONMENT. THERE ARE MANY FACTORS WHICH JUSTIFY HIGH-LEVEL DISCUSSION OF THIS SUBJECT, ALTHOUGH IT CAN AND SHOULD BE CONDUCTED IN A MUCH MORE FOCUSED WAY THAN HAS BEEN THE CASE FOR TALKS WITH THE LDC'S.

6. POLAND'S EXPORT CAPABILITIES HAVE UNDOUBTEDLY BEEN LIMITED BY RECESSION AND SLOW RECOVERY IN THE WEST. ALTHOUGH THE GOP HAS INCURRED ITS DEBT WILLINGLY, ITS HIGH LEVELS OF CAPITAL-GOODS IMPORTS IN 1973-1976 HELPED DAMPEN THE EFFECTS OF RECESSION ON WESTERN EXPORTERS.

7. MOREOVER, POLAND HAS HAD TO CONFRONT A SERIES OF EXPORT RESTRICTIONS IMPOSED BY THE EC WHICH THE GOP COULD NOT HAVE ANTICIPATED WHEN IT WAS PLANNING ITS FOREIGN TRADE STRATEGY IN THE EARLY 1970'S. I AM NOT REFERRING TO THE PROTECTION OF SENSITIVE SECTORS, SUCH AS TEXTILES, BUT RATHER TO THE EC'S IMPOSITION OF QUOTAS ON AGRICULTURAL IMPORTS FROM POLAND AND ITS REFUSAL TO END ITS SYSTEM OF QUOTAS ON POLISH IMPORTS AS ENVISAGED UNDER THE TERMS OF POLAND'S ACCESSION TO THE GATT. THESE

REPRESENT, WITHOUT QUESTION, SPECIAL RESTRICTIONS AGAINST POLAND AND THEY PUT THE GOP AT A DISADVANTAGE BY COMPARISON WITH OTHER MEMBERS OF TODAY'S DEBTORS' CLUB, MOST OF WHOM HAVE RECEIVED SPECIAL PREFERENCES AND EXPECT TO RECEIVE FURTHER SPECIAL CONSIDERATIONS UNDER THE TOKYO ROUND.

8. WE HAVE SOME IMPORTANT TRADE-POLICH OBJECTIVES IN TAKING UP THESE PROBLEMS WITH THE EC AT A HIGH LEVEL, AS WAS THE CASE
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WHEN WE EXPRESSED OUR CONCERN AT THE WORKING LEVEL DURING GATT DISCUSSIONS. FIRST, THE CONTINUATION OF EC QUOTAS AGAINST POLISH IMPORTS ENCOURAGES TRADE DIVERSION; A GREATER SHARE OF POLISH EXPORTS IS DIRECTED TOWARD THE TS THAN WOULD OTHERWISE BE THE CASE. SECOND, THE EC'S MAINTENANCE OF THESE QUOTAS ENCOURAGES IT TO BARGAIN FOR BILATERAL TRADE CONCESSIONS, SUCH AS COMMITMENTS TO IMPORT MINIMUM LEVELS OF HIGH-PRICED EC AGRICULTURAL PRODUCTS, OR OTHER CONCESSIONS, IN RETURN FOR LIFTING THE QUOTAS. SUCH BILATERAL CONCESSIONS HURT THE POSITION OF US EXPORTERS. THIRD, MAINTENANCE OF THE QUOTAS HAS RESULTED IN AD HOC EXCEPTIONS WHICH ARE PROBABLY IN VIOLATION OF GATT PRINCIPLES. SPECIFICALLY, WE UNDERSTAND THAT THE FRG AND FRANCE, AND PROBABLY OTHER EC MEMBER COUNTRIES, EXEMPT FROM THESE QUOTAS ANY IMPORTS RESULTING FROM INDUSTRIAL--COOPERATION VENTURES BETWEEN GERMAN OR FRENCH AND POLISH COMPANIES. SUCH SELECTIVE POLICIES MAY GIVE EC COMPANIES ADDED LEVERAGE IN COMPETING FOR LARGE POLISH CONTRACTS. MORE IMPORTANTLY, THEY ENCOURAGE THE GOP TO SEEK SPECIAL TREATMENT FROM THE USG FOR GOODS IMPORTED UNDER INDUSTRIAL-COOPERATION AGREEMENTS.

9. BY TAKING UP THESE MARKET-ACCESS QUESTIONS WITH THE EC, WE CAN ALSO HELP FOCUS ATTENTION ON FUTURE ACCESS TO THE POLISH MARKET. WE UNDERSTAND THAT THE EC HAS PROPOSED A SERIES OF COMMITMENTS FOR MINIMUM IMPORTS IN SPECIFIC SECTORS, WHILE THE USG IS CONSIDERING CONCESSIONS IN THE SERVICE SECTOR (SHIPPING AND INSURANCE) AS THE MOST APPROPRIATE. BOTH OF THESE APPROACHES IGNORE THE KEY VARIABLE IN DETERMINING THE SIZE OF THE POLISH IMPORT MARKET, THE ABILITY OF THE POLES TO SWITCH, VIRTUALLY OVERNIGHT, THE DIRECTION OF A LARGE NUMBER OF IMPORTS FROM WEST TO EAST. IDEALLY WE SHOULD BE PRESS-
ING THE POLES TO ADOPT A FORMULATION THROUGH WHICH ITS IMPORT PATTERN WOULD BE BASED ON SOME TYPE OF ECONOMIC CRITERIA, IE, THAT THE RATIO OF IMPORTS FROM CEMA TO THOSE FROM THE WEST FOR
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VARIOUS INDUSTRIAL SECTORS WOULD NOT CHANGE SIGNIFICANTLY UNLESS SOME AUTONOMOUS FACTOR, SUCH AS PRICE CHANGES, COULD BE IDENTIFIED. FOR 1977, IMPORTS FROM CEMA ARE APPARENTLY UP BY OVER 15 PERCENT, WHILE THOSE FROM THE WEST HAVE FALLEN. SUCH A COORDINATED APPROACH TO ACCESS TO THE POLISH MARKET CANNOT,

HOWEVER, BE ACHIEVED WITHOUT SOME MEANINGFUL, COORDINATED ACTION BY WESTERN COUNTRIES ON TREATMENT OF POLISH EXPORTS. AS LONG AS THE GOP CONSIDERS THAT ITS ABILITY TO PAY FOR FUTURE IMPORTS IS BEING UNFAIRLY IMPAIRED, IT WILL NOT CONSIDER THE KIND OF OBLIGATIONS DISCUSSED ABOVE.

10. THESE TRADE-POLICH CONSIDERATIONS CALL FOR DISCUSSIONS WITH THE EC AT A HIGH LEVEL. IF WE CAN TELL THE GOP THAT WE PLAN TO PUSH THE EC TO END THE TRANSITIONAL PERIOD OF POLAND'S MEMBERSHIP IN GATT (AND THE SPECIAL QUOTAS APPLIED IN THE TRANSITIONAL PERIOD), WE WILL ALSO HAVE SHOWN THE GOP THAT WE ARE NOT OBLIVIOUS TO ITS NEED TO EXPORT.

11. I NOW TURN TO THE OTHER RECOMMENDATIONS CONCERNING THE GOP'S APPROACH TO THE US MARKET. I ASSUME THE USG HAS NOTHING NEW TO SAY ON THE SUBJECT OF ANTIDUMPING REGULATIONS, TEXTILE QUOTAS, AND NEAR-QUOTAS ON SHOES. WE SHOULD, NEVERTHELESS, EXPLAIN OUR POSITIONS ON THESE ISSUES AS SUCCINCTLY AS POSSIBLE IN A WRITTEN REPLY TO THE POLISH AIDE MEMOIRE OF NOVEMBER 30. THE GOP STILL DOES NOT UNDERSTAND WHY NEW-TO-THE-MARKET POLAND CANNOT RECEIVE SPECIAL TREATMENT AND WE SHOULD THEREFORE LAY IT ON THE LINE ONE MORE TIME.

12. WE SHOULD, HOWEVER, RESPOND IN A SOMEWHAT DIFFERENT MANNER TO POLISH CONCERNS ON THE USG ATTITUDE TOWARD INDUSTRIAL-COOPERATION PROJECTS AND SPECIALIZATION OF POLISH EXPORTERS FOR TMR KY MARKET. POLISH ECONOMIC PLANNERS REGARD THE LARGE US MARKET AND THE POSSIBILITY OF EXPLOITING IT AND OTHER MARKETS IN CLOSE COOPERATION WITH US CONGLOMERATES AS A KEY ELEMENT IN THEIR DEVELOPING FOREIGN-TRADE STRATEGY. BOTH THEIR EXPERIENCE WITH CEMA-MEMBER COUNTRIES AND, MORE RECENTLY, CONFIDENTIAL

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WITH THOSE OF THE EC HAVE LED THE POLISH LEADERSHIP TO EXPECT SPECIAL TREATMENT FOR LARGE-SCALE INDUSTRIAL-COOPERATION VENTURES. THE GOP, THEREFORE, WILL PROBABLY ASK US TO DEMONSTRATE SOME WAY IN WHICH SUCH COOPERATION PROJECTS CAN BE CONCLUDED WITH US FIRMS WITHOUT BEING DETERRED BY ANTIDUMPING REGULATIONS.

13. WE NEED TO MAKE CLEAR TO THE GOP NOW, BEFORE PROCEEDING WITH NEGOTIATIONS ON THE DRAFT ECONOMIC AND INDUSTRIAL COOPERATION AGREEMENT, THAT WE DO NOT CONFER SPECIAL TREATMENT UPON INDUSTRIAL-COOPERATION UNDERTAKINGS. WE QHOULD AT THE SAME TIME EMPHASZIE THAT OUR REGULATIONS AFFECT ALL COUNTRIES AND HAVE NOT KEPHCMAZY LDC'S FROM EXPLOITING THE US MARKET THROUGH JOINT VENTURES OR OTHER UNDERTAKINGS WITH AMERICAN FIRMS. THE FACT THAT US FIRMS KNOW THE MARKET AND THE RELATIVE PRICE SITUATION INFINITELY BETTER THAN POLISH EXPORTERS IS THE GOP'S BEST ASSURANCE AGAINST RUNNING AFOUL OF EXISTING LAWS. WE HAVE PROPOSED AN AGREEMENT WHICH WOULD CREATE THE PROPER ATMOSPHERE FOR COOPERATION AMONG OUR COMPANIES. THE EXTENT TO WHICH POLISH FIRMS PURSUE THESE POSSIBILITIES WILL DETERMINE THEIR MARKETING SUCCESS IN THE US, BECAUSE THE HIGH

QUALITY AND SERVICE DEMANDED IN THE US ARE LESSONS WHICH WILL NOT OTHERWISE BE EASILY LEARNED BY POLISH EXPORTERS.

13. WE SHOULD ALSO REPEAT OUR OFFERS TO HELP FAMILIARIZE POLISH FIRMS WITH THE US MARKET, THROUGH CALLING SPECIAL OPPORTUNITIES TO THE ATTENTION OF TOP CORPORATE EXECUTIVES, ORGANIZING ADDITIONAL MARKETING SEMINARS, AND IDENTIFYING US FIRMS WHICH WOULD BE POTENTIAL PARTNERS FOR POLISH FIRMS INTERESTED IN GIVEN PRODUCT LINES. EACH OF THESE MATTERS WAS DISCUSSED DURING THE INDUSTRIAL COOPERATION/BUSINESS FACILITATION WORKING GROUP OF THE MIXED TRADE COMMISSION AND WILL BE DEVELOPED FURTHER DURING THE MEETING OF THE STANDING WORKING GROUP NEXT SPRING.

14. WE WISH TO CALL PARTICULAR ATTENTION TO ONE SMALL, BUT CONFIDENTIAL

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OUTSTANDING, EXAMPLE OF US EFFORTS TO EDUCATE POLISH EXPORT ORGANIZATIONS ON HOW TO OPERATE IN THE US MARKET. THIS TOOK PLACE JUST A FEW WEEKS AGO IN THE FORM OF A SPECIAL SEMINAR MEETING ORGANIZED BY THE US DEPARTMENT OF COMMERCE AND THE POLISH FOREIGN TRADE MINISTRY AT AN INSTITUTE LOCATED IN A SMALL VILLAGE SEVERAL MILES NORTH OF WARSAW. AMERICAN PARTICIPANTS INCLUDED BUSINESSMEN FROM SEVERAL LARGE US FIRMS AND ACADEMICS FROM THE UNIVERSITY OF MINNESOTA AND THE WHARTON SCHOOL OF FINANCE, AND, ON THE POLISH SIDE, OFFICIALS FROM A NUMBER OF ENTERPRISES AND FOREIGN-TRADE ORGANIZATIONS. OVER A PERIOD OF FIVE DAYS, MEMBERS OF THIS GROUP TALKED DIRECTLY WITH EACH OTHER ABOUT HOW TO DO BUSINESS IN THE UNITED STATES. THERE WAS VERY LITTLE FORMALITY AND THERE WERE NO BOILERPLATE SPEECHES OF THE TYPE WHICH OFTEN DOMINATE ORGANIZED EAST-WEST MEETINGS. THE RESULT WAS AN UNUSUALLY HIGH LEVEL OF CAMARADERIE AND UNDERSTANDING. WE HOPE SEMINARS OF THIS TYPE CAN BE REPEATED.

15. WE BELIEVE THAT EDUCATION IS A KEY ELEMENT IN MOVING POLAND, AND SOME OTHER EAST EUROPEAN CEMA COUNTRIES AS WELL, TOWARD A MORE REALISTIC APPROACH TO THEIR TRADE WITH THE UNITED STATES. VERY SUBSTANTIAL PROGRESS HAS BEEN MADE OVER THE PAST TEN YEARS. FURTHER PROGRESS IN LEARNING HOW OUR SYSTEM WORKS AND WHAT STANDARDS AND TECHNIQUES THE AMERICAN MARKET REQUIRES CAN, AT A MINIMUM, REMOVE THE GROUNDS FOR SOME OF THE CHARGES OF DISCRIMINATION AND PROTECTIONISM WHICH STEM FROM FRUSTRATION AT POLAND'S INABILITY TO DEAL WITH A HIGHLY SOPHISTICATED MARKET ECONOMY.
DAVIES UNQUOTE VANCE

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